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The Manufacturers Hanover
# Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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## The Dollar Will Weaken . . .

After reaching record levels in early August, the dollar has moved significantly lower against other major currencies, suggesting that the long-awaited weakening of the U.S. currency may finally be at hand. On a trade-weighted basis, the dollar has eased by 2.7 percent since the week ended August 12 when the dollar peaked; it has fallen by 5.3 percent against the Japanese yen, and by 4.6 percent against the German mark (see chart). What is more, falling U.S. interest rates suggest further declines. Between the dollar's high-water mark on August 12 and October 21, both U.S. and Euromarket interest rates have fallen. Interest rates on three-month U.S. secondary CDs and three-month Eurodollar CDs have both dropped by almost one percentage point.

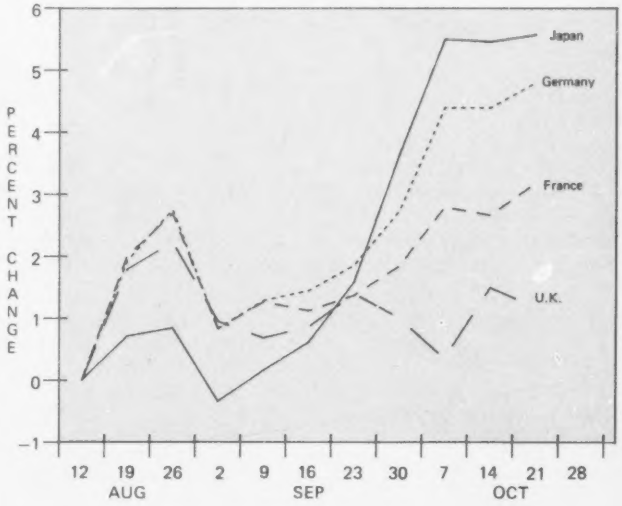
U.S. interest rates are still high in both nominal and real terms. However, these rates may now be less supportive of the dollar than before. For one thing, the spread between U.S. interest rates and foreign interest rates has narrowed. As a result, dollar-denominated assets are no longer quite as attractive to foreign investors as before. The higher yields offered by dollar-denominated financial assets when compared with foreign currency assets do not now provide as high an offset to a potential loss from the investment should the dollar depreciate during the investment period.

## . . . As Interest Rates Ease . . .

Further, market expectations have shifted from one of rising, to one of either stable or falling interest rates. This suggests that the possibility of dollar depreciation is greater than before, further reducing the attractiveness of dollar-denominated financial assets. Interest rates are expected to trend lower partly because of the slower growth of the U.S. money supply. With M1 now growing within the Federal Reserve's target band, the markets no longer expect any near-term Fed action that would raise interest rates.

What is more, the apparent ease with which corporations are financing their capital expenditures with internally-generated funds, and reduced estimates of Treasury borrowing needs also explain why U.S. interest rate expectations have changed. These factors imply that the strong competition for funds in the debt markets between the private and the public sectors, which would put upward pressure on interest rates, will occur later than many had expected. Finally, anticipation of a further slowing of U.S. economic growth in the fourth quarter from the torrid pace of the second and third quarters, by keeping the demand for money—and goods—moderate, reinforces the view that interest rates will fall.

VALUES IN U.S. DOLLARS OF CURRENCIES
% CHANGE FROM AUGUST 12, 1983
(WEEKLY AVERAGES)




## . . . And The Trade Deficit Deteriorates . . .

Soaring U.S. merchandise trade and current account deficits also point to a decline in the value of the dollar. The U.S. merchandise trade balance registered a record $36.4 billion deficit last year, and the red ink is expected to gush even more strongly this year and next. Merchandise trade deficits of at least $60 billion this year and $85 billion next year are possible. These numbers are so large that they will swamp by a wide margin the usually substantial surpluses the U.S. runs on its services account.

As a result, the current account balance, which includes all foreign transactions in goods, services and transfer payments, is expected to show deficits of about $30 billion this year and $50 billion next year

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These figures exceed by an overwhelming margin the previous record current account deficits experienced in 1977 and 1978, which were $14.5 billion and $15.4 billion, respectively. From the beginning of 1977 to the end of 1978, the dollar depreciated by 11.4 percent on a trade-weighted basis.

High U.S. interest rates have so far neutralized the impact of the mounting U.S. current account deficits on the dollar. But as these rates stabilize or fall, the negative impact of the current account deficits this year and next will become much more evident to the markets, thus depressing the dollar's external value. A weaker dollar will be a welcome development for the world economy, although there may be some unwanted side effects. It will, for example, contribute towards higher inflation in the United States. It may also produce strains within the European Monetary System (EMS) and force yet another realignment: when the dollar weakens, funds usually shift into the German mark, strengthening it against its EMS counterparts. It will also lessen the export-price advantage of countries competing internationally with the U.S. and may prompt the oil-producing countries, whose oil exports are paid for in dollars, to try to raise prices. However, it is doubtful that OPEC can put into effect noticeably higher prices in the next two or three years because of the condition of the oil market.

### . . . Benefiting The World Economy

There are, however, a number of benefits resulting from a weaker dollar. Growing pressure for protectionism in the U.S., which looms as a threat

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 10/19/83 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 157.576 | – 1.799 | +14.935 |
| Loans to Depository Inst. | .577 | – .697 | + .061 |
| Float | 1.668 | + .346 | – 1.062 |
| Total Reserve Bank Credit | 168.778 | – 1.352 | +13.041 |
| Treasury Deposits with Federal Reserve Banks | 5.258 | – 3.370 | + 2.400 |
| Currency Outside Banks | 146.624 | + 1.128 | +12.333 |
| Member Bank Reserves: | | | |
| Required | 38.094 | + 1.525 | – 2.883 |
| Excess (Deficiency) | .263 | – .489 | + .002 |
| Total Reserves Held | 38.357 | + 1.036 | – 2.881 |
| Net Borrowed Reserves | .080 | + .342 | + .020 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 112.885 | + 3.259 | +12.666 |
| **Monetary Aggregates †** | | **% Change Since Three Months Ago*** | **% Change Since Year Ago** |
| M1 | 517.4 | + 3.8‡ | + 11.1‡ |
| M2 (September '83) | 2,145.3 | + 5.8 | + 11.9 |
| M3 (September '83) | 2,544.0 | + 7.2 | + 9.0 |
| Domestic Nonfinancial Debt (2nd Q'83) | 4,939.1 | + 11.7 | + 10.3 |

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

## New York Money Market

| Offering Rates 10/28/83 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡U.S. Treasury Bills | 8.60% | 8.80% | 8.95% |
| * Federal Agencies | 8.75 | 9.25 | 9.90 |
| * Project Notes—Taxfree (46% Taxable Equivalent) | 9.44 | 9.72 | 10.56 |
| Negotiable Time CDs Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market—Prime | 9.20 | 9.35 | 9.90 |

| ‡Finance Company Paper—Prime | | ‡* Bankers' Acceptances | |
|---|---|---|---|
| 5- 14 days | 9.00% | Nov. | 9.07% |
| 15- 29 days | 9.00 | Dec. | 9.07 |
| 30- 59 days | 9.00 | Jan. | 9.07 |
| 60- 89 days | 9.00 | Feb. | 9.07 |
| 90-179 days | 8.88 | Mar. | 9.08 |
| 180-239 days | 8.75 | Apr. | 9.00 |
| 240-270 days | 8.75 | | |

| ‡Industrial Paper—Prime | | | |
|---|---|---|---|
| 30- 89 days | 9.00% | †Federal Funds Effective Rate | 9.30% |
| 90-120 days | 9.05 | | |

‡Discount basis. * Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 3rd Q'83 | $ 3,363 | $ 3,272 | $ 3,091 |
| Gross National Product (1972 Dollars)* | 3rd Q'83 | $ 1,554 | $ 1,525 | $ 1,486 |
| Percent Change, Annual Rate | 3rd Q'83 | 7.9 | 9.7 | – 1.0 |
| Change in Consumer Prices (new series)* | Sep '83n | 6.0% | 4.8% | 1.2% |
| Change in Producer Prices* | Sep '83 | 2.4% | 4.8% | 1.2% |
| Civilian Employment (Thousands of Persons) † | Sep '83 | 101,945 | 101,563 | 99,543 |
| Unemployment as % of Civilian Labor Force † | Sep '83 | 9.3% | 9.5% | 10.2% |
| Personal Income* | Sep '83 | $ 2,781 | $ 2,756 | $ 2,597 |
| Leading Indicators Composite Index (1967=100)† | Sep '83n | 160.2 | 158.7r | 137.5 |
| Industrial Production Index (1967=100) † | Sep '83 | 153.7 | 151.4 | 137.3 |
| Net Change in Consumer Installment Credit † | Aug '83 | $ 3.39 | $ 4.84 | $ 0.26 |
| U.S. Merchandise Trade Balance † | Sep '83n | –$ 5.81 | –$ 7.19 | –$ 4.20 |
| Plant and Equipment Expenditures* | 4th Q'83 | $326.73(a) | $313.04(a) | $303.18 |
| Private Housing Starts (Thousands of Units)* | Sep '83 | 1,652 | 1,909 | 1,134 |
| New Construction Expenditures* | Aug '83 | $ 276.1 | $ 269.5 | $ 231.6 |
| Total Business Inventories † | Aug '83 | $ 512.1 | $ 505.8 | $ 521.3 |
| Total Business Sales † | Aug '83 | $ 373.6 | $ 372.4 | $ 343.4 |

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

to world trade, will ease, as will the financial strains on developing countries with large amounts of dollar debt. A softer U.S. currency will also help to lower inflation abroad. Most important, the weaker dollar could eventually lead to rising levels of economic activity in a number of industrial countries that have had to maintain lofty domestic interest rates in order to protect their currencies from excessive depreciation against the dollar. As the dollar weakens, interest rates may be allowed to descend from today's high levels in these countries, bolstering business activity—despite the negative impact of a diminishing export-price advantage vis-a-vis the United States.

Take, for example, Japan. Its recovery has been sluggish this year because of high domestic interest rates, which have dampened domestic business activity. These rates have been essentially unchanged for two years, despite a four percentage point plunge in the rate of inflation which lifted Japanese real interest rates to among the highest levels in the world. Yet, one reason why Japan hesitated to reduce these rates was because it feared that such action would prompt additional yen weakness. And, given the country's already strong net export position, Japan wished to forestall further criticism of its trade and exchange rate policies. Only in the last few weeks, with the dollar weaker, did Japan announce a one-half percentage point cut in its discount rate. As the dollar weakens further, Japan may be able to initiate additional interest rate reductions, boosting the country's domestic economic growth. H

## Short Term Paper Outstanding

(Millions of Dollars)

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **Negotiable Time CD's Weekly Reporting Banks** | | | |
| Nationwide (10/12/83) | 88,857 | – 1,117 | –59,579 |
| New York City (10/12/83) | 19,182 | – 297 | –18,318 |
| **Commercial Paper** (10/12/83) | 177,710 | + 800 | + 4,100* |

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/12/83) | 215,640 | + 869 | – 3,601 |
| New York City (10/12/83) | 58,174 | + 356 | – 4,340 |

**Total Loans Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/12/83) | 516,455 | + 619 | + 9,868 |
| New York City (10/12/83) | 118,574 | + 242 | – 3,559 |

## Financial Markets

| | Friday 10/28/83 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 8.95% | + .15 | + .85 |
| 180-Day Bills† | 9.53 | + .28 | + .73 |
| Longest Bills† | 9.78 | + .13 | + .63 |
| **Recent Issues:** | | | |
| 10½s 10/31/85 (When Issued) | 10.60 | + .10 | |
| 11⅛s 9/30/87 | 11.17 | + .20 | |
| 11⅞s 8/15/93 | 11.70 | + .30 | |
| 12s 8/15/13 | 11.75 | + .28 | |
| **Municipals:** | | | |
| Bond Buyer–20 Bond Index* (10/27/83) | 9.81% | + .13 | – .24 |
| Blue List Total ($ Million) | $1,462 | + $ 26 | + $ 139 |
| 30-Day Visible Supply ($ Million) | $2,480 | – $344 | – $1,799 |
| Total | $3,942 | – $318 | – $1,660 |
| **Corporates:** | | | |
| Moody's Aa Composite (10/27/83) | 12.55% | – .09 | – .30 |
| 30-Day Visible Supply ($ Million) | $1,750 | + $650 | + $ 330 |
| **Stocks:** | | | |
| **Dow-Jones Averages:** | | | |
| Industrials | 1,223.48 | – 25.40 | + 231.67 |
| Transportation | 576.61 | – 13.69 | + 156.42 |
| Utilities | 139.26 | + .44 | + 20.12 |
| 65 Stocks | 492.95 | – 9.05 | + 103.92 |
| **Standard and Poor's 500 Stocks** | 163.37 | – 2.58 | + 29.66 |
| **N.Y.S.E. Composite Index** | 94.28 | – 1.47 | + 17.33 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 81,776 | – 9,222 | – 1,498 |

* 46% Taxable equivalent 18.17%.

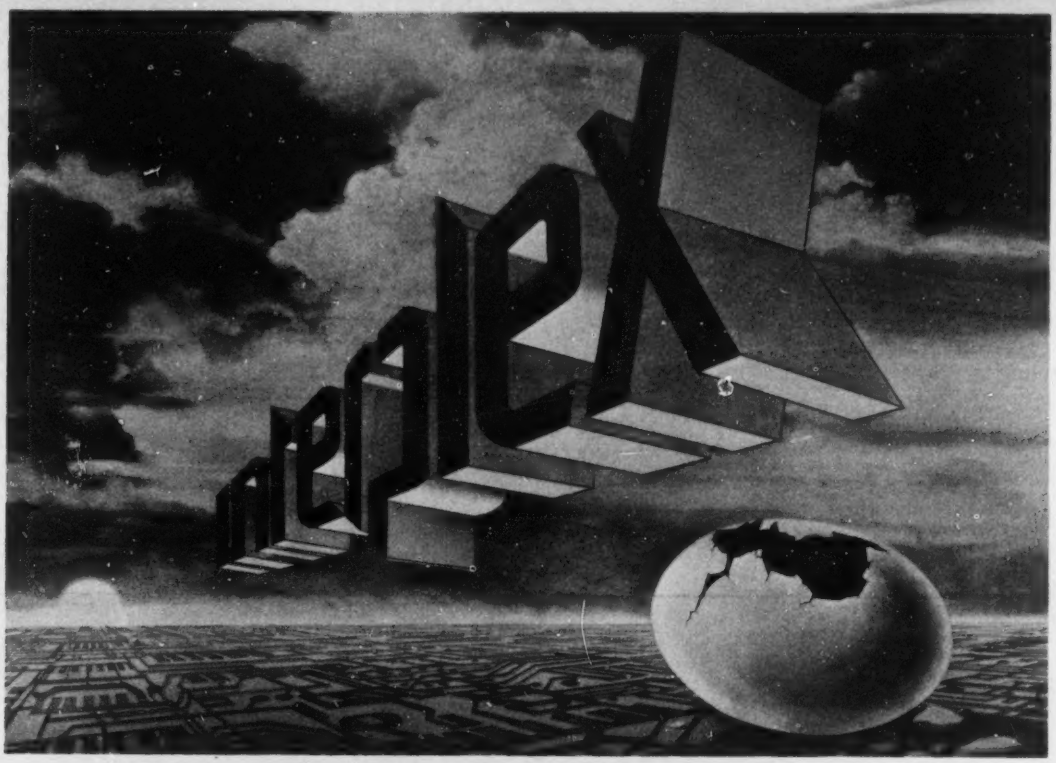
† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 10/28/83 | Week Ago |
|---|---|---|
| Overnight | 9.38% | 9.38% |
| 1 month | 9.44 | 9.44 |
| 3 month | 9.56 | 9.50 |
| 6 month | 9.69 | 9.63 |
| 1 year | 10.00 | 9.94 |
| **EURODOLLAR BONDS** | | |
| **Average Yield** | | |
| Medium Term (5 to 7 yrs.) | 11.50% | 11.45% |
| Long Term (7 to 15 yrs.) | 11.60 | 11.55 |

**FOREIGN EXCHANGE SPOT RATES**

| New York Opening (10/28/83) | U.S. $ Equivalent | Currency Per U.S. $ |
|---|---|---|
| Belgium | .01877 | 53.27 |
| Canada | .8114 | 1.2324 |
| Denmark | .1059 | 9.4435 |
| France | .1254 | 7.9765 |
| Germany | .3820 | 2.6180 |
| Italy | .0006276 | 1593.25 |
| Japan | .004296 | 232.80 |
| Mexico | .006309 | 158.50 |
| Netherlands | .3405 | 2.9365 |
| Switzerland | .4702 | 2.1268 |
| U.K. | 1.4941 | .6693 |

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